AUDIT REPORT
OF THE
NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM - PROGRAM 315
OFFICE OF JUVENILE SERVICES

JULY 1, 2001 THROUGH JUNE 30, 2002

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 315 - OFFICE OF JUVENILE SERVICES

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 315 - OFFICE OF JUVENILE SERVICES

BACKGROUND

The Office of Juvenile Services was originally established in 1994 within the Department of Correctional Services. The programs and functions of the office were transferred to the Health and Human Services System (HHSS) in 1997. The functions of the office include administration of the youth rehabilitation and treatment centers in Kearney and Geneva and juvenile community supervision services. The office is charged with providing a range of community-based services for juveniles and their families along with overall case management for juveniles committed to the office's custody. Program 315 is specifically used to account for administration.

The Parole and Community-Based Juvenile Services Division, the Youth Rehabilitation and Treatment Centers, and the Children and Family Services Division are each part of the Protection and Safety area of the HHSS. A central focus since the creation of the system has been the merger of child welfare and juvenile services into an integrated child, youth family service area. This merger brings together two entities that service a number of the same clients and work with the same support systems. The merger was intended to overcome historic funding barriers; increase service capacity, and maximize resources; improve service delivery; and produce efficiencies in management and operation of child welfare and juvenile services.

The Youth Rehabilitation Treatment Center (YRTC)-Geneva houses adjudicated female juveniles committed to the Office of Juvenile Services by the juvenile courts for staff-secure residential custody. Diagnostic and evaluation services also provided at the center for both male and female juveniles have been transitioned to contracted services that are geographically accessible statewide. The YRTC-Kearney houses adjudicated male juveniles committed to the office by the juvenile courts for staff-secure residential custody. Both centers provide education and specialized treatment designed to meet the developmental needs of youth and to redirect their behavior.

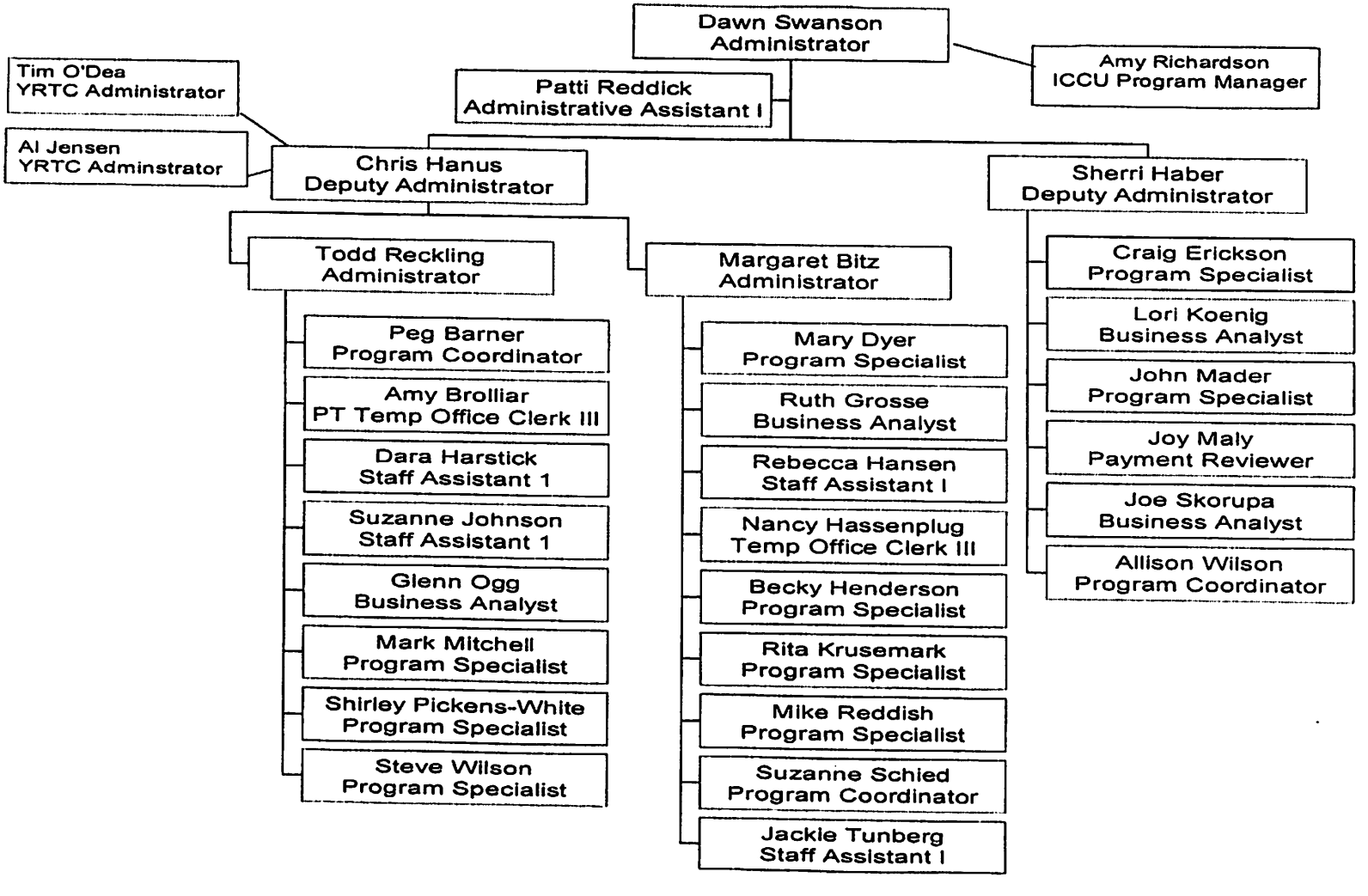
The community service delivery system has been incorporated into six service areas of the HHSS. Community services staff are responsible for case management of all juveniles committed to the office, and for direct supervision of juveniles paroled from the YRTCs and juveniles committed by the juvenile courts for direct community placement. The Division has contracts with a number of private sector service providers within each region. The Division staff assist in management of these contracts and the coordination of services provided such as community evaluations, community residential evaluations, tracker programs, and individual and family counseling.

MISSION STATEMENT

"We help people live better lives through effective health and human services."

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 315 - OFFICE OF JUVENILE SERVICES

ORGANIZATIONAL CHART



COMMENT AND RECOMMENDATION

During our audit of the Nebraska Health and Human Services System - Program 315 - Office of Juvenile Services, we noted a certain matter involving the internal control over financial reporting and other operational matters which is presented here. The comment and recommendation is intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

Division Review of Transactions

Good internal control includes procedures for Divisions to review the detail of transactions posted to the programs they administer to ensure transactions have been correctly charged to the Program.

No detailed review of transactions posted to Program 315 was completed and documented at the Division level. The Budget Status Report was reviewed, however, this report only shows total expenditures, not details. Detailed reports of transactions posted to Program 315 were provided to the Division by the Finance and Support area of the Health and Human Services System.

When a detailed review is not completed there is an increased risk incorrect transactions will be posted to the Program.

> We recommend procedures be developed to ensure a detailed review of transactions posted is completed to ensure transactions posted are appropriate and correct.

It should be noted this report is critical in nature since it contains only our comment and recommendation on the area noted for improvement.

Draft copies of this report were furnished to the Program to provide them an opportunity to review the report and to respond to the comment and recommendation included in this report. The Program declined to respond.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 315 - OFFICE OF JUVENILE SERVICES

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Nebraska Health and Human Services System - Program 315 - Office of Juvenile Services (Program), as of and for the year ended June 30, 2002, which collectively comprise the Program's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Program's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also, as discussed in Note 1, the financial statements of the Nebraska Health and Human Services System - Program 315 - Office of Juvenile Services, are intended to present the cash balances and changes in cash balances of only that portion of the governmental activities and each major fund of the State that is

attributable to the transactions of the Nebraska Health and Human Services System - Program 315 - Office of Juvenile Services. They do not purport to, and do not, present fairly the cash balances of the governmental activities and each major fund of the State of Nebraska as of June 30, 2002, and its changes in cash balances for the year then ended in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash balances of the governmental activities and each major fund of the Nebraska Health and Human Services System - Program 315 - Office of Juvenile Services, as of June 30, 2002, and the respective changes in cash balances thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2003, on our consideration of the Nebraska Health and Human Services System - Program 315 - Office of Juvenile Service's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Program's basic financial statements. The accompanying budgetary comparison information is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Nebraska Health and Human Services System - Program 315 - Office of Juvenile Services. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Timothy J. Channer CPA

July 11, 2003

Assistant Deputy Auditor

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 315 - OFFICE OF JUVENILE SERVICES
STATEMENT OF ACTIVITIES - CASH BASIS
For the Fiscal Year Ended June 30, 2002

	Governmental Activities TOTAL (Memorandum Only)
Disbursements:	
Function: Health and Social Services	
Personal Services	$ 257,117
Operating	36,264
Travel	22,085
Total Disbursements	315,466
Program Receipts	-
Net Program Receipts (Disbursements)	(315,466)
General Receipts	
Appropriations	315,466
Total General Receipts	315,466
Change in Net Assets	-
Net Assets July 1, 2001	-
Net Assets June 30, 2002	$ -

The accompanying notes are an integral part of the financial statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 315 - OFFICE OF JUVENILE SERVICES
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2002

	Major Fund State General Fund 1000
RECEIPTS:	
Appropriations	$ 315,466
TOTAL RECEIPTS	315,466
DISBURSEMENTS BY FUNCTION:	
Health and Social Services	315,466
TOTAL DISBURSEMENTS	315,466
Net Change in Fund Balances	-
FUND BALANCE, JULY 1, 2001	-
FUND BALANCE, JUNE 30, 2002	$ -

The accompanying notes are an integral part of the financial statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 315 - OFFICE OF JUVENILE SERVICES

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2002

1. Summary of Significant Accounting Policies

The accounting policies of the Nebraska Health and Human Services System - Program 315 - Office of Juvenile Services are on the basis of accounting as described in the Nebraska Accounting System Manual.

A. Reporting Entity

The Nebraska Health and Human Services System - Program 315 - Office of Juvenile Services (Program) is a program within the Health and Human Services System. The Health and Human Services System is a State agency established under and governed by the laws of the State of Nebraska. As such, the Program is exempt from State and Federal income taxes. The financial statements include all funds of the Program.

The Nebraska Health and Human Services System - Program 315 - Office of Juvenile Services is part of the primary government for the State of Nebraska's reporting entity.

B. Basis of Presentation

Program-wide Financial Statements. The Statement of Activities - Cash Basis displays information about the activities of the Program, and is in the format of government-wide statements as required by Governmental Accounting Standards Board (GASB) Statement Number 34. This statement includes all the financial activities of the Program. Internal activities in this statement have not been eliminated. Governmental generally accepted accounting principles (GAAP) would require internal activity to be eliminated to minimize double counting. The Program reports governmental activities only. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities demonstrates the degree to which the direct disbursement of a given function or segment is offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts reduce the net cost of the function to be financed by general receipts. Nebraska Health and Human Services System - Program 315 - Office of Juvenile Services receipts include general receipts. General receipts include all receipts properly not included as program receipts. The Program reported the following general receipts: Appropriations, which are granted by the Legislature to make disbursements and to incur obligations. The amount of appropriations reported as receipts is the amount spent.

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

Fund Financial Statements. The fund financial statement provides information about the Program's fund. GAAP requires separate statements by fund category - governmental, proprietary, and fiduciary. The Program uses only the governmental fund category. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Program reports the following major governmental fund:

General Fund. This is the Program's primary operating fund. It accounts for financial resources of the general government, except those required to be accounted for in another fund.

C. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The accounting records of the Program are maintained and the Program-wide financial statements were reported on the basis of cash receipts and disbursements. As such, the measurement focus includes only those assets and fund balances arising from cash transactions on the Statement of Activities-Cash Basis. Revenues are recognized when received and expenditures are recognized when paid for all funds of the Program. This differs from governmental generally accepted accounting principles (GAAP), which requires the Program-wide fund financial statement to be reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus and basis of accounting revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statement was also reported on the cash receipt and disbursement basis of accounting. As such, the same measurement focus and basis of accounting were used as described above. This differs from governmental generally accepted accounting principles (GAAP), which require governmental fund financial statements to be reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus and basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State of Nebraska considers revenues to be available if they are collected within one

1. Summary of Significant Accounting Policies (Concluded)

year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

D. Assets and Net Assets

Cash in State Treasury. Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether a fund is considered designated for investment is done on an individual fund basis.

Inventories. Disbursements for items of an inventory nature are considered expended at the time of purchase rather than at the time of consumption.

Capital Assets. Under the cash receipts and disbursements basis of accounting, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds. GAAP requires capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) to be reported in the applicable governmental activities columns in the government-wide financial statements.

Depreciation expenses on capital assets was not recorded on the cash basis financial statement. Under GAAP, depreciation expenses would be recorded in the Statement of Activities. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

Compensated Absences. All permanent employees working for the Program earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees and Board and Commission members are not eligible for paid leave. Under the receipts and disbursements basis of accounting, the liabilities for compensated absences are not reported since they do not represent liabilities arising from cash transactions. Under GAAP, the compensated absences liability would be reported in the government-wide financial statements, and would be recorded in accordance with the State of Nebraska policy which is to recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Totals

The Totals "Memorandum Only" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information because interfund balances and transactions have not been eliminated.

3. Contingencies and Commitments

Risk Management. The Program is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The Program, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability and workers' compensation. The State has chosen to purchase insurance for:

A. Motor vehicle liability, which is insured for the first $5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage, and uninsured and underinsured motorists with various limits and deductibles. State agencies have the option to purchase coverage for physical damage to vehicles.

B. The DAS-Personnel Division maintains health care and life insurance for eligible employees.

C. Crime coverage, with a limit of $1 million for each loss, and a $10,000 retention per incident.

D. Real and personal property on a blanket basis for losses up to $250,000,000, with a self-insured retention of $200,000 per loss occurrence. Newly-acquired properties are covered up to $1,000,000 for 60 days or until the value of the property is reported to the insurance company. The perils of flood and earthquake are covered up to $10,000,000.

E. State agencies have the option to purchase building contents and inland marine coverage.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Compensation Insurance Trust Fund through a combination of employee and State contributions. Workers' compensation is

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. **Contingencies and Commitments (Concluded)**

funded in the Workers' Compensation Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Health and Human Services System - Program 315 - Office of Juvenile Service's financial statements.

Litigation. The potential amount of liability involved in litigation pending against the Program, if any, could not be determined at this time. However, it is the Program's opinion that final settlement of those matters should not have an adverse effect on the Program's ability to administer current programs. Any judgment against the Program would have to be processed through the State Claims Board and be approved by the Legislature.

4. **State Employees Retirement Plan (Plan)**

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended by legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Prior to April 18, 2002, membership in the Plan was mandatory for all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service. Full time employee is defined as an employee who is employed to work one-half or more of the regularly scheduled hours during each pay period. Voluntary membership is permitted for all permanent full-time or permanent part-time employees upon reaching age twenty and completion of twelve months of permanent service within a five-year period. Any individual appointed by the Governor may elect to not become a member of the Plan. Legislative Bill 687 (2002), effective April 18, 2002, stated all permanent full-time employees shall begin participation in the plan upon completion of twelve continuous months of service.

Employees contribute 4.33% of their monthly compensation until such time as they have paid during any calendar year a total of eight hundred sixty four dollars, after which time they pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Program matches the employee's contribution at a rate of 156%.

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. **State Employees Retirement Plan (Plan) (Concluded)**

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the system (prior to April 18, 2002) or at retirement. Legislative Bill 687 (2002), effective April 18, 2002, changed the vesting requirement to a total of three years of participation in the system, which includes the twelve-month eligibility period or credit for participation in another governmental plan prior to actual contribution to the Plan.

For the fiscal year ended June 30, 2002, employees contributed $5,520 and the Program contributed $8,611.

5. **GASB 34**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments. The State of Nebraska implemented the Statement for the fiscal year ending June 30, 2002.

The Program implemented GASB 34 by presenting its financial statements in a format as required by GASB 34. However, as explained in Note 1.C. the Program's financial statements are presented on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Previous period financial statements of the Program were also prepared on the cash basis of accounting; therefore, these financial statements, even though in a different format, are comparable to previous period financial statements of the Program.

6. **Appropriations**

Appropriations were originally made by the Nebraska Legislature to Program 250 - Juvenile Services and then allocated by the HHSS to other programs. Other programs in addition to Program 315 - Office of Juvenile Services included Program 345 - Juvenile Community Based Services, Program 364 - Juvenile Parole, Program 371 - Youth Rehabilitation and Training Center (YRTC) - Geneva, and Program 374 - Youth Rehabilitation and Training Center (YRTC) - Kearney.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 315 - OFFICE OF JUVENILE SERVICES
SUPPLEMENTARY INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2002

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
PROGRAM:				
Program 315 - Office of Juvenile Services	$ 429,201	$ 321,384	$ 315,466	$ 5,918
TOTAL DISBURSEMENTS	$ 429,201	$ 321,384	$ 315,466	$ 5,918

See Notes to Supplementary Information

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 315 - OFFICE OF JUVENILE SERVICES

NOTES TO SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2002

BUDGETARY COMPARISON SCHEDULE

GAAP Requirements

Generally Accepted Accounting Principles (GAAP) requires budgetary comparison schedules for the general fund, and for each major special revenue fund that has a legally adopted annual budget. For each program, the Legislature appropriated the Program's legally adopted annual budget amount. The Program's budgetary comparison schedule includes the general fund.

GAAP also requires the budgetary comparison schedule to include the *original budget* and *final budget* amounts. The *original budget* is the first complete appropriated budget adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes *before* the beginning of the fiscal year. The original budget would also include actual appropriation amounts automatically carried over from prior years when required by law. The *final budget* is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year as signed into law or otherwise legally authorized.

Budgetary Process

The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Program and all other State agencies must submit their budget request for the biennium beginning the following July 1. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium.

The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and presents the appropriations bill to the Governor for signature. The Governor may: a) approve the appropriations bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths vote of the Legislature.

The approved appropriations will generally set spending limits for a particular program within the agency. Within the agency or program, the Legislature may provide funding from one to five budgetary fund types. Thus, the control is by fund type, within a program, within an agency. As a result, the budgetary comparison schedule only reports total disbursements *by program*.

Appropriations are usually made for each year of the biennium, with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium.

NOTES TO SUPPLEMENTARY INFORMATION
(Continued)

All State budgetary disbursements for the general fund are made pursuant to the appropriations, which may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major objects of expenditure accounts, except that the Legislature's approval is required to exceed the personal service limitations contained in the appropriations bill. Increases in total appropriations must also be approved by the Legislature as a deficit appropriations bill.

Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budgetary Comparison Schedule.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 315 - OFFICE OF JUVENILE SERVICES

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the Nebraska Health and Human Services System - Program 315 - Office of Juvenile Services as of and for the year ended June 30, 2002, and have issued our report thereon dated July 11, 2003. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the Nebraska Health and Human Services System - Program 315 - Office of Juvenile Services. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Health and Human Services System - Program 315 - Office of Juvenile Service's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Health and Human Services System - Program 315 - Office of Juvenile Service's internal control over financial reporting in order to determine our auditing procedures

for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that we have reported to the management of the Nebraska Health and Human Services System - Program 315 - Office of Juvenile Services in the Comments Section of this report as Division Review of Transactions.

This report is intended solely for the information and use of the Program, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.

Timothy J. Channer CPA

July 11, 2003

Assistant Deputy Auditor